

Deferred retirement curbs business profits?
An analysis of firm performance and labor flows by age group with linked employer-employee data*

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As a response to the aging of citizens, governments are trying to encourage aging workers to stay longer in the work. These aims are costly to the employers if Lazear's deferred payment hypothesis holds. According to the theory, separations of older workers should be beneficial to firms. By using comprehensive linked employer-employee data from the Finnish business sector, we study the productivity and wage effects, and hence the profitability effects, of hiring and separation of younger and older workers. Unlike other labor flows, separations of older workers have a strong positive impact on profitability. Robustness checks include the use of regional labor supply and other variables as instruments for the potential endogeneity of labor flows.

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